



STATE OF MICHIGAN

JENNIFER M. GRANHOLM
GOVERNOR

MICHIGAN STATE HOUSING DEVELOPMENT AUTHORITY
LANSING

MICHAEL R. DeVOS
EXECUTIVE DIRECTOR

MEMORANDUM

To: County Allocation Grantees

From: Richard G. Ballard, Director
Office of Community Development

Date: August 30, 2007

Subject: **2008 Community Development Block Grant (CDBG) County Allocation Grants**

The purpose of this memo is to advise counties of the Office of Community Development's (OCD) priorities for County Allocation Grants for the 2008 funding year. OCD grantees applying for funding at 100 percent of their county allocation need to expend grant funds in a timely manner while meeting the terms of OCD's leveraging requirements. For current grants expiring July 1, 2007 through June 30, 2008 (most expire on December 31, 2007), the following policies are being announced in this memo:

- **Application Process**
- **Allocation Amounts and Eligible Activities**
- **Renewal of Grants and Determination of Renewal Amount**
- **Use of CDBG for Base Allocation Grant**
- **Strategies for Spending Program Income to Ensure Timely Expenditure of CDBG Allocation Grant Funds**

APPLICATION PROCESS

The application for 2008 CDBG County Allocation funds will be available via the following web-site beginning October 1, 2007: <http://www.mshda-opal.org>. You will need your assigned user ID and password to log on to OPAL. All current MSHDA Grantees have been issued a user ID and password. If you do not have these assigned to you, contact your CD Specialist. Once you have logged on there will be a box on the right titled "Initiate An Application", choose "Housing Resource Fund" and follow the grant application process for county allocation funding.

Assuming the 2008 federal budget is approved in a timely manner, **MSHDA will fund CDBG County Allocation eligible grant applications submitted on-line between October 1, 2007 and January 31, 2008** for a two-year term effective January 1, 2008, or as soon as possible after approval (whichever is later). All renewal grants will expire December 31, 2009. Applications received after January 31, 2008 are not guaranteed an allocation of 2008 CDBG funds.



Equal
Housing
Lender

735 EAST MICHIGAN AVENUE • P.O. BOX 30044 • LANSING, MICHIGAN 48909
www.michigan.gov/mshda • (517) 373-8370 • FAX (517) 335-4797 • TTY (800) 382-4568

Printed by members of:



ALLOCATION AMOUNTS AND ELIGIBLE ACTIVITIES

HUD's CDBG funds for states are allocated by population size to the non-entitled communities in Michigan resulting in the following potential award amounts for Michigan counties:

<u>Population</u>	<u>Allocation Amount</u>
0 - 5,000	\$100,000
5,001 - 10,000	\$125,000
10,001 - 20,000	\$150,000
20,001 - 30,000	\$175,000
30,001 - 40,000	\$200,000
40,001 - 50,000	\$225,000
50,001 - 60,000	\$250,000
60,001 - 70,000	\$275,000
Over 70,001	\$300,000

The above allocation amounts depend on the following factors:

- Appropriation of sufficient funds by the United States Congress and enactment of these appropriations into law;
- Continuation of the current national CDBG allocation formula or use of a formula which provides Michigan with at least as great a proportion of CDBG funds as the current formula;
- Continued allocation of at least 25 percent of Michigan's CDBG allocation to MSHDA for housing;
- Any other factor which would substantially reduce the amount of CDBG funding available for housing.

Applications for 2008 CDBG County Allocation grant funds may be submitted for the following eligible activities, and detailed information regarding each of these components is described in OCD's Housing Resource Fund Summary found on MSHDA's website:

Homeowner Assistance – Funds for this component may be used to improve the principal residence of low-income homeowners for Homeowner Rehabilitation and Emergency Repair activities.

Rental Rehabilitation – This component offers funds to rehabilitate investor-owned properties in strategically targeted neighborhoods.

Homebuyer Assistance – CDBG program dollars may be used to fund:

- Deferred loans of up to \$10,000 per unit to households assisted by a local Habitat for Humanity Affiliate.
- Down Payment Assistance without rehabilitation, if MSHDA's Links to Homeownership Program is not locally available.
- Home Purchase with Rehabilitation (HPR) on a county-wide or targeted basis.
- Acquisition Development Resale (ADR) is eligible; however, new construction would generally be ineligible.

RENEWAL OF GRANTS AND DETERMINATION OF RENEWAL AMOUNT

OCD bases its policies for renewal of these grants on the following priorities:

- Promoting the prompt expenditure of grant funds;
- Maximizing the number of units and extent of rehab by maximizing leveraged funds;
- Implementing programs in compliance with Federal regulations and MSHDA policies;
- Preserving CDBG funds for targeted strategies (such as the Neighborhood Preservation Program and Downtown Revitalization).

To implement these priorities, OCD has established the following funding opportunities:

A. 100% Base Allocation

Counties may apply for CDBG renewal grants of up to 100% of their county allocation amount as soon as the following conditions are met:

- The current grant is at least 75% expended (that is, 75% of the grant has been drawn down by the county and paid to contractors for completed work);
- The grantee has completed enough grant projects on OPAL to show that an amount equal to at least 25% of the grant's total project costs (homeowner assistance component plus any program income expended on project costs--not admin) has been expended using eligible leverage funds.;
- There are no outstanding findings from past or current grants.

Counties that do not meet any of the above requirements may reapply when their current grant is at least 75% expended. However, counties which have not met this threshold may submit applications during January 2008, but the application will be held until the threshold is met. If the 75% threshold is not met by January 31, 2008, there is no guarantee that funds will be available.

Beginning in 2007, newly-issued CDBG county allocation grants that continue to structure homeowner rehabilitation assistance as loans to be paid back, and not as forgivable loans, are not required to provide 25% leverage from other sources with the CDBG funds. However, if the minimum leverage amount on the expiring grant has not been expended, the 2008 grant award could be reduced proportionately. That is, counties may apply for homeowner assistance funding only in proportion to the amount for which they met the 25% leverage requirement in their last grant.

Example: A county with a \$200,000 homeowner assistance component has leveraged only \$25,000 (half) of the \$50,000 required from eligible sources in the grant it is completing. The next grant award will be reduced by half, or \$100,000.

B. General Requirements for all County Allocation Awards

Projects must be substantially complete and grant funds must be expended (i.e., drawn down and paid to contractors) during the grant term. Funds unexpended after the last day of the grant will be recovered. Grantees with funds that are committed but not expended on projects substantially completed during the grant term but with final payments still outstanding should discuss this situation with their CD Specialist. OCD does not plan to approve grant extensions.

USE OF CDBG FOR BASE GRANT

A. Funding sources

OCD will fund base county allocations with CDBG funds only.

B. Supplement Funds for Current 2007 and 2008 CDBG Grantees

In past years MSHDA has allowed for high performing counties to apply for additional County Allocation funds above the base allocation amount; beginning with the 2007 CDBG funding year, counties have access only to a base allocation of CDBG funds. There will be no supplement to this base in HOME or CDBG. Additional funding for counties must be applied for through the OCD Housing Resource Fund and must be for projects that meet OCD funding priorities.

C. PIP-Plus CDBG Funding

In an effort to provide additional CDBG homeowner rehabilitation funds to counties who are willing to participate in the MSHDA Property Improvement Program (PIP), MSHDA has established a PIP-Plus CDBG fund. This pilot fund is administered for OCD by Roscommon County. All MSHDA CDBG County Allocation Grantees can access the fund. A memo detailing the PIP-Plus program was mailed out to all counties earlier this month.

STRATEGIES FOR SPENDING PROGRAM INCOME TO ENSURE THE TIMELY EXPENDITURE OF CDBG ALLOCATION GRANT FUNDS

MSHDA OCD has observed that many counties are receiving a considerable amount of CDBG Program Income (PI) from the repayment of deferred and monthly loans at the county level. This has had an impact in many cases on the timely expenditures of the county's allocation grant. MSHDA suggests that the county develop a strategy to anticipate the receipt and expenditure of PI. The following are observations and suggestions for the county's consideration:

- The county cannot draw down grant funds if the uncommitted balance of PI exceeds \$5,000.
- The county should estimate the maximum number of projects that they are able to complete with grant funds, leverage dollars, and potential PI and reevaluate marketing strategies, program guidelines and housing activities for the possibility of expanding their client and/or activity base. Following is an example of an average county program:

Example: County XYZ has a \$200,000 base grant. Additionally, the county averages \$50,000 per year in PI. Over the two-year grant term, the county would have approximately \$300,000. The county will need to expend \$300,000 over the course of two years. If the average project cost is \$20,000 per unit, the county will produce 15 homeowner rehabilitation projects over the two-year period.

We realize that Program Income is a somewhat unpredictable funding source. However, the deferred loan policy has been in effect for a number of years, increasing the dollar amount and number of loans in the county's loan pool. As this number of loans continues to increase, the flow of funds from these loans should become, if not more predictable, at least more reliable

from year to year. Counties are encouraged to consider this projected program income as they do their budget planning, since it is the only likely source of future growth in the county allocation program.

Several suggestions for increasing/expanding a county's expenditure of project funds include:

- The above strategy of creating an intake pipeline that accounts for likely program year, with the understanding that if this income is not realized, these projects would be addressed in the next program year, to the extent allowed by OCD's carry-forward policy.
- Undertake other eligible CDBG housing activities such as Acquisition Development Resale or Rental Rehabilitation that could help with the expenditure of PI.
- Counties could use their new County Allocation for other activities (ADR, Rental Rehabilitation) and use the PI as a Revolving Loan Fund (RLF) for homeowner rehabilitation projects.
- Expand program guidelines to include a more stringent housing code standard, or add energy savings products.

If you have any questions, please contact your CD Specialist.

Q & A about this Memorandum:

Q1: The funds in our current grant are exhausted. May we apply for a renewal now?

A: No, MSHDA will not be able to take applications for 2008 county allocation grants before October 1, 2007.

Q2: What happens if we don't spend all our grant funds?

A: Grant funds that have not been committed as of the expiration of the grant term may be recaptured, but will not cause the subsequent grant to be reduced. Grant funds committed but not expended will be recovered by reducing the next grant.

Example: A grantee with \$164,000 in non-admin funds has committed the entire amount by 12/31/07. The grantee has paid \$158,000 to contractors for completed work, but has \$6,000 in final payments to make for work that is substantially complete. Grant funds will still be available; no funds will be recaptured or reduced as long as the projects are completed promptly.

Example: A grantee with \$164,000 in non-admin funds has committed a total of \$150,000, but has expended only \$100,000 in payments to contractors. \$14,000 (the uncommitted balance) will be recaptured from the grant. Their next grant may be reduced by up to \$50,000 (the amount committed for unfinished work), depending on the status of the incomplete jobs.

Where grant commitments are substantially behind schedule, OCD will consider extending grants for another year, in lieu of recapturing funds and processing a new grant.

Q3: In the past we have been reporting only required leverage (25%), after 25% we stop reporting. What should we do?

A: In the future, when reporting on OPAL in the Leverage Fund Summary Screen, include under "Leverage" the total of all leverage funds from eligible sources outside your grant that were expended to complete grant-funded projects. You may also include stand-alone PIP loans as leverage.

Q4: But the OPAL Leverage Fund Summary Screen counts only leverage from completed projects. What about leverage on projects that are in progress?

A: Leverage on uncompleted projects but are under contract may be considered with approval from your Community Development Specialist.

Q5: Can we expect an opportunity to apply for increases during a grant term?

A: We do not expect to increase funding beyond 100% of the allocation amount. You should not expend funds substantially ahead of schedule in the hope of getting an increase if such expenditures will (a) create problems in budgeting local administrative costs for the entire two-year period, or (b) result in an interruption in housing services

that will cause local public relations problems. You can, of course, apply for other funds through the Housing Resource Fund that meet OCD funding priorities.

Q6: Does OCD expect these policies to be in force in future years?

A: Allocation formulas and funding policies change from year-to-year, depending on funding availability and priorities. The policies announced in this memo affect only the groups of grantees as indicated. However, because of declining federal appropriations and other demands on CDBG funds, MSHDA OCD will most likely only fund eligible counties at 100% of the base allocations, beginning with the 2007 funding year, and continuing with this pattern into the foreseeable future.

Q7: OCD is emphasizing targeted projects under its Housing Resource Fund (HRF). Are counties expected to restrict County Allocation projects to target areas?

A: No. Counties may run county-wide programs or engage in targeted projects with their county allocation funds.